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MEMORANDUM

TO: Docket Control Center

FROM: Steven M. Olea  
Director  
Utilities Division

EA for SMD

DATE: May 10, 2010

RE: UPDATED SUPPLEMENTAL STAFF REPORT IN THE MATTER OF THE APPLICATION OF MCLEODUSA TELECOMMUNICATIONS SERVICES, INC. D/B/A PAETEC BUSINESS SERVICES FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS (DOCKET NO. T-03267A-09-0475)

Attached is the Updated Supplemental Staff Report for the application of McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services for approval of a financing order authorizing various financing transactions and encumbrance of its assets. Staff continues to recommend conditional approval of the requested authorization.

Any party to this proceeding who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 28, 2010.

SMO:JCM:lhmm\WVC

Originator: Juan C. Manrique

Arizona Corporation Commission

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Service List for: McLeodUSA Telecommunications Services, Inc. D/B/A PAETEC Business  
Services Docket No. T-03267A-09-0475

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Mr. William A. Haas  
Vice President of Public Policy & Regulation  
PAETEC Holding Corp.  
One Martha's Way  
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**UPDATED SUPPLEMENTAL STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.  
D/B/A PAETEC BUSINESS SERVICES  
DOCKET NO. T-03267-09-0475**

**APPLICATION FOR APPROVAL  
OF A FINANCING ORDER AUTHORIZING  
VARIOUS FINANCING TRANSACTIONS AND  
ENCUMBRANCE OF ASSETS**

**MAY 10, 2010**

## STAFF ACKNOWLEDGMENT

The Updated Supplemental Staff Report for McLeodUSA Telecommunications Services, Inc. dba PAETEC Business Services (Docket No. T-03267A-09-0475) is the responsibility of the Staff member listed below. Juan C. Manrique is responsible for the review and financial analysis of the Company's application.

A handwritten signature in black ink, reading "Juan Manrique". The signature is written in a cursive style with a large initial "J" and "M".

JUAN C. MANRIQUE  
PUBLIC UTILITIES ANALYST I

On October 2, 2009, McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services ("PAETEC" or "Company"), filed with the Commission an application for approval to pledge its Arizona assets as security for certain debt financing arrangements up to \$700,000,000 pursuant to Arizona Revised Statute ("A.R.S.") § 40-285 and Arizona Administrative Code R14-2-804 ("Application").

On January 25, 2010, the Commission's Utilities Division Staff ("Staff") filed a Staff Report recommending conditional approval of the request for the pledge of the Applicant's Arizona assets.

On February 18, 2010, the Applicant filed a Notice of Transaction and Request for Retroactive Authority ("Notice"). In its Notice, PAETEC stated that, in order to take advantage of favorable market conditions, it had closed the transaction on January 7, 2010. As such, PAETEC requested that the order granting the Application be retroactive to January 1, 2010. The Notice did not provide any information about the terms and conditions underlying the transaction.

On March 26, 2010, Staff filed a Supplemental Staff Report that concluded that the request for Retroactive Authority was reasonable. Staff also found that no further discovery was necessary in regard to this request.

On April 7, 2010, a Procedural Order was filed in this docket that required the Company to file with Docket Control a supplement to its Application containing several details of the financing including amount, structure, terms, lender, etc. by April 26, 2010. The Procedural Order further required that Staff file an Updated Staff Report including updated recommendations, if any, no later than May 18, 2010.

On April 16, 2010, the Company filed a supplement to its Application containing all of the details required by the April 7, 2010, Procedural Order.

A.R.S. § 40-301(c) requires that, prior to granting authorizations under the article, the Commission must find that:

"...that such issue is for lawful purposes which are within the corporate powers of the applicant, are compatible with the public interest, with sound financial practices, and with the proper performance by the applicant of service as a public service corporation and will not impair its ability to perform that service."

However, A.R.S. § 40-301(d) states:

The provisions of this article shall not apply to foreign public service corporations providing communications service within this state whose

physical facilities are also used in providing communications service in interstate commerce.

Since PAETEC provides telephone service and is based outside of Arizona, pursuant to A.R.S. § 40-301(d), it is exempt from the required finding in A.R.S. § 40-301(c). Accordingly, Staff has not made such a finding for this application.

Staff recommends granting the Applicant's Request for Retroactive Authority and continues to recommend all of the conclusions and recommendations in its original Staff Report.